

**MARCH 2000FS-2000-05**

## **IRS ACTIONS TAKEN SINCE THE JOINT COMMITTEE ON TAXATION BEGAN INVESTIGATING EXEMPT ORGANIZATIONS PROGRAM**

### **Background**

On Feb. 25, 1997, then-Commissioner of the IRS, Margaret Milner Richardson, offered to provide the Joint Committee on Taxation with information relating to recent press allegations of politically targeted examinations of tax-exempt organizations. In her letter to Senator William Roth and Representative Bill Archer, she said, "These reports are inaccurate and misleading and suggest incorrectly that the IRS is enforcing the internal revenue laws for partisan political purposes. Such unfounded reports erode public confidence in the integrity of the IRS, thereby undermining the self-assessment compliance system."

On March 24, 1997, the Joint Committee on Taxation staff was directed to investigate whether the IRS's selection of tax-exempt organizations for audit had been politically motivated and to analyze the selection of exempt organizations for audit "for reasons related to their alleged political or lobbying activities." The IRS cooperated fully with the staff in its investigation to provide information needed to investigate these serious allegations and the operation of the exempt organizations examination program.

During the time the Committee staff conducted its investigation, the IRS conducted its own evaluation of the program and made a number of changes to strengthen it. These changes, among others, will improve the way the IRS interacts with the tax-exempt community to provide services and help protect the public interest by applying the tax law with integrity and fairness to all.

### **Highlights of Actions Taken**

As part of the overall IRS modernization, the Tax Exempt and Government Entities division (TE/GE) became operational in December 1999. TE/GE's mission is to focus on the needs and tax law responsibilities of three customer groups: Employee Plans, Exempt Organizations, and Government Entities. The Exempt Organizations (EO) division will address the particular needs and issues relating to tax law and procedures governing the tax-exempt

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community, with emphasis on customer education and outreach, determinations and rulings, and examination programs.

TE/GE is in the process of establishing a public tax-exempt and government entities advisory group to advise and voice concerns on issues of interest and importance to the tax-exempt community. One of the first tasks of the advisory group will be to help design a study on how to improve the process for selecting exempt organization returns for examination.

To address concerns about the processing time for determination letters, the IRS established a new administrative right for exempt organizations. If the IRS does not act on the application within 270 days, the applicant may request a status conference with high-ranking IRS officials, who will take a fresh look at the case to determine the cause of the delay and whether problems or irregularities exist.

To address concerns about the handling of information items from third parties, including the general public, the IRS is in the process of establishing an improved system for reviewing such complaints. A committee of experienced career EO employees will review many third-party information items and evaluate whether they establish a “reasonable belief” that further action is warranted. If the “reasonable belief” standard is not met, the IRS will not initiate an examination. All decisions will be fully documented. As has long been the practice, experienced career field employees will retain responsibility for considering whether there is a need for an examination.

### **Future Actions**

The IRS will review the Joint Committee’s observations and recommendations and take appropriate action to further strengthen the Exempt Organizations determination and examination program.

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